

spending. The remainder is subject to annual review through the appropriation process. This section of the appendix describes the basic methodology for projecting these two types of federal spending, and the next section discusses programs that require special assumptions or methodology.

### Direct Spending

The term direct spending refers to four types of spending that are, in effect, mandatory under existing law: permanent appropriations and trust funds; appropriated entitlements; permanent revolving funds; and offsetting receipts. To affect spending in these programs, the basic substantive law usually must be changed. The baseline spending projections for these programs assume that existing law will continue unchanged; they represent CBO's best estimates of future spending under the baseline economic assumptions.

Permanent Appropriations and Trust Funds. In some instances, authority to spend may be provided directly in the legislation that authorizes a program, without the need for subsequent annual appropriations. Examples of such direct spending programs include Medicare, Social Security, and interest on the public debt.

Appropriated Entitlements and Other Mandatory Appropriations. Some benefit programs, called appropriated entitlements, have their budget authority provided in annual appropriations. Medicaid, Supplemental Security Income, Aid to Families with Dependent Children, and the veterans' compensation and pension programs are examples of such appropriated entitlements. The basic legislation for these programs requires the payment of benefits to any person or government meeting the eligibility requirements. The level of spending is mandated in these cases by existing law and cannot be effectively controlled through the appropriation process.

In addition, certain appropriated accounts are treated as mandatory for projections purposes, even though the House and the Senate Budget Committees do not both consider them entitlements. The list of mandatory items is that used in the so-called bipartisan baseline, which served as the basis for developing the 1983 budget resolution. The projections for the Food Stamp program, for example, are computed as if the program were mandatory, since the Congress has always appropriated enough money to cover all benefit payments to eligible recipients. Other programs treated as mandatory include child nutrition, unemployment trust fund outlays for training and employment services and for administrative expenses, payments

to air carriers, Maritime Administration operating differential subsidies, rehabilitation services, government payments for annuitants' health benefits, payments in lieu of taxes, and certain miscellaneous trust funds. Some federal payments to Civil Service Retirement and other trust funds, while considered mandatory, are exactly offset by corresponding intragovernmental receipts and have no effect on total outlays.

Revolving Loan Funds. Many federal lending programs are administered through revolving funds, which disburse loans and accept repayments of principal and interest. The CBO calculates a baseline for these programs by first developing a lending level for each year of the projections. For fiscal years in which the Congress has set a lending limit, CBO uses that limit as a base for projections. If no limit has been set, CBO estimates the base-year lending level to be equal to average program experience over the past few years, adjusted for inflation. For subsequent years in which the Congress has yet to set a ceiling, CBO projects a baseline lending level by inflating the base-year level. New budget authority and outlays are estimated using these lending levels, projected loan repayments, and established government accounting practices for revolving funds.

In its budget for fiscal year 1988, the Administration announced its intention to use its authority to sell the loan assets of certain government agencies, such as the Small Business Administration and the Farmers Home Administration. These plans were formulated after the preparation of the CBO baseline, and their budgetary effects are not included in the projections.

Offsetting Receipts. Certain receipts from the public resulting from the federal government's business-type activities and certain intragovernmental receipts are automatically credited to special receipt accounts and are treated as negative spending. They are deducted from other budget authority and outlays in computing budget totals rather than being counted as revenues. Examples of such receipts include those from premiums for Supplementary Medical Insurance, from the sale of timber in national forests, and from rents and royalties from Outer Continental Shelf lands. In the baseline projections, the amount of these receipts is estimated on the assumption that current government policies regarding the extent of timber sales, the scope and timing of offshore leasing activities, and so forth, will be continued, and that actual receipts will respond to underlying economic and demographic conditions, such as the prices of lumber and oil and the number of Medicare enrollees.

### Annual Appropriations

The remainder of federal spending is controlled by and requires annual action through the appropriation process. The fiscal year 1987 spending level assumed for these programs is that enacted by the Congress through October 1986. The 1988-1992 projections for the appropriated accounts represent a continuation of the program levels embodied in the 1987 appropriation, which is taken as the most current indication of Congressional policy.

For most appropriated accounts, future budget authority is assumed to stay constant in real terms--that is, to keep pace with a measure of inflation appropriate to the particular budget account. In a few instances, the baseline budget authority is the estimated amount required to achieve specified program objectives--for example, a fill rate for the Strategic Petroleum Reserve. When the 1987 appropriation reflects the availability of unobligated balances, the projection base is assumed to be the 1987 program level--that is, budget authority plus activity financed by available balances. Appropriations for 1988 through 1992 are projected by inflating this base-year program level.

Although statutory authority for most discretionary programs will expire during the five-year projection period, authorizations are assumed to be renewed routinely except for programs that are clearly of a one-time nature, such as temporary study commissions. The projected growth in budget authority is limited by any authorization limit that may have been set by the Congress; if the limit ceases to apply in some future year, budget authority is assumed to rise with inflation thereafter. If the base-year appropriation exceeds the authorization, the projections also ignore the authorization limit, which is considered to have been rendered moot by the subsequent appropriation. It is further assumed that budget authority will result in outlays according to the observed historical pattern for the particular account.

### SPECIAL ASSUMPTIONS FOR SPENDING

Most spending is projected using the baseline concepts and approaches described in the previous section of this appendix. This section provides further information for those budget accounts requiring special assumptions or methodology.

---

### National Defense (Function 050)

The defense baseline assumes that budget authority keeps pace with inflation--the same approach used generally for nondefense discretionary programs. Outlays in each year are CBO estimates of spending resulting from the assumed budget authority.

In the 1987 appropriations bill, the Congress rescinded about \$5.4 billion in budget authority previously provided for 1986 and prior years. Under Congressional scorekeeping conventions, these rescissions are counted as reducing 1987 budget authority even though the appropriation rescinded prior-year money. The projections of budget authority for 1988 through 1992 take as a base the amount of new 1987 budget authority without reduction for the rescission of earlier appropriations.

The two major components of the defense budget are federal employee pay and benefits (about one-third of 1987 budget authority) and purchases of goods and services (the remaining two-thirds). The inflation factor for federal employee pay and benefits reflects both the assumed rate of pay increase and the increased agency costs resulting from the new Federal Employee Retirement System. The CBO assumes that federal employees' wages--civilian and military--are increased at the same rate as those in the private economy. The inflation factors for the other components of the defense budget are derived by projecting price changes in specific defense industries consistent with the baseline economic assumptions.

Baseline inflation rates for these two major components of defense spending and a composite rate for defense spending as a whole are shown in Table A-1. Because there is often a long lag between the obligation of defense funds and the actual production of the defense goods, the inflation rate for outlays and budget authority are different, although related. The outlay inflation rate reflects only price changes in the given year. For those procurement accounts whose budget authority will result in outlays over many years, the inflation rate for budget authority is a weighted average of projected outlay inflation rates over the period during which the budget authority will be spent.

### International Affairs (Function 150)

Public Law 480 Food Assistance Program. Through the Agricultural Trade Development and Assistance Act of 1954 (Public Law 83-480), the government provides selected developing nations with grants and with low interest rate, long-term loans to purchase U.S. farm products. The CBO bases its

spending projections for this program on the obligation levels specified in the fiscal year 1987 continuing resolution; budget authority is the level of new appropriations required to carry out these obligations in each year, and outlays are disbursements less receipts from program participants.

Foreign Military Sales Credit. The Administration has announced a program of partial capitalization of interest and prepayment without penalty for foreign military sales credits extended through the Federal Financing Bank. This program was announced after the preparation of the CBO baseline, and its effects are not included in the projections.

Guarantee Reserve Fund. Payments from this fund reimburse lenders for late charges and other costs of providing guaranteed loans for foreign military sales credits. At the start of fiscal year 1987, the Guarantee Reserve Fund contained \$16 million as a reserve for \$21 billion in loan guarantees. The baseline estimates that the fund will be exhausted in fiscal year 1987 and assumes that direct credit appropriations for foreign military sales will be used to meet claims payments.

TABLE A-1. DEFENSE INFLATION RATES UNDER CBO BASELINE ASSUMPTIONS (By fiscal year, in percents)

Component	1987	1988	1989	1990	1991	1992
<b>Budget Authority</b>						
<b>Inflation Rate</b>						
Pay and benefits	2.7	5.0	5.4	5.1	5.4	5.3
Purchases	3.3	4.0	4.1	4.2	4.2	4.2
Composite	3.1	4.3	4.5	4.5	4.6	4.6
<b>Outlay Inflation Rate</b>						
Pay and benefits	2.7	5.0	5.4	5.1	5.4	5.3
Purchases	2.5	3.5	4.1	4.2	4.2	4.2
Composite	2.6	4.2	4.5	4.5	4.6	4.6

Source: Congressional Budget Office.

Export-Import Bank. The Export-Import Bank (Eximbank) provides direct loans and loan guarantees to foreign buyers of selected U.S. products. As part of its \$900 million direct loan limitation, the Eximbank received an appropriation of \$100 million for the grant element of tied-aid--that is, deeply subsidized--credits. In the CBO baseline, the Eximbank's direct loan obligations and tied-aid grants are projected at levels which together equal the direct loan limits specified in the continuing resolution.

The Eximbank also has permanent borrowing authority to meet obligations resulting from regular bank lending activity. The budget authority for this activity is the level of direct loan obligations in each year, less direct loan cancellations, repayments, and Eximbank net income, plus redemption of debt and changes in the balance of unobligated borrowing authority available to the bank. Outlays represent disbursements less receipts from borrowers.

International Monetary Fund (IMF). Since the IMF's founding in 1944, the United States has participated in every increase in the fund's resources and is projected to continue to do so. The CBO baseline assumes that an increase in the quota will occur in 1989 in an amount sufficient to maintain the relative level of the current U.S. subscription. Dollar transfers with the IMF affect the U.S. Treasury's cash position and borrowing requirements, but are counted as an exchange of international reserve assets and not as budget outlays.

State Department Security. The 1987 base for projecting State Department salaries and expenses includes funds for ongoing activities to enhance security that were provided in the fiscal year 1986 supplemental appropriation (Public Law 99-349) for use during fiscal year 1987. Amounts appropriated in fiscal year 1986 for nonrecurring items are not included in the projections base.

Special Defense Acquisition Fund. Outlays from this fund over the projections period are based on the limits on new obligations contained in the appropriations acts.

---

General Science, Space, and Technology (Function 250)

Shuttle Orbiter. The continuing resolution for fiscal year 1987 appropriated \$2.1 billion for a replacement space shuttle orbiter. This was intended as a one-time appropriation and is not included in budget authority projections beyond 1987. Outlays for the new orbiter are constrained by the continuing resolution's prohibition on the obligation of funds before August 1, 1987.

Space Station. The baseline assumes that space station funding is maintained at the fiscal year 1987 level adjusted for inflation. The Congress has not yet approved or provided funding for a particular space station design, however, and the portion of baseline budget authority earmarked for initial station development cannot be spent.

Energy (Function 270)

Tennessee Valley Authority and Bonneville Power Administration. Budget authority for these permanent appropriations is the level of borrowing authority needed each year to finance capital spending, while outlays represent capital spending levels, net of receipts. The baseline assumes that all operating expenses are covered by revenues from ratepayers.

Uranium Enrichment. The federal government sells enriched uranium to private and government customers and uses the receipts to defray its production costs. Budget authority projections in the baseline assume that the Congress will continue to appropriate amounts equal to each year's estimated receipts. Receipts from civilian customers are projected on the basis of current prices and anticipated sales, and intragovernmental receipts from the defense atomic energy program are projected on the basis of fiscal year 1987 appropriations, with adjustment for inflation in future years.

Sale of Minerals and Mineral Products. Receipts from the sale of oil and other petroleum products from the Naval Petroleum Reserves are deposited in the U.S. Treasury. Estimates of these receipts are based on projections of oil prices, production rates, and sales of other petroleum products.

Nuclear Waste Disposal Program. This program reflects spending by the Department of Energy to develop repositories for the disposal of high-level radioactive waste. Budget authority projections include amounts that the department estimates will be needed each year to develop repositories in compliance with the procedural and scheduling requirements in the Nuclear Waste Policy Act of 1982 (Public Law 97-425). Funding for general support activities is projected to continue at the 1987 level, adjusted each year for inflation.

Nuclear Waste Fee. The Nuclear Waste Policy Act of 1982 levies a fee of one-tenth of a cent per kilowatt hour on net electricity generated by nuclear power plants. In the baseline, the receipts from this fee are determined by estimates of the output of completed power plants, plus plants scheduled to begin operation in each year; the fee is assumed to remain constant through 1992.

Clean Coal Technology Reserve. The Congress authorized \$400 million for this program in the continuing resolution for fiscal year 1986. Funds were to be transferred from the Energy Security Reserve as follows: \$100 million in 1986 and \$150 million in 1987 and 1988. The CBO baseline assumes that the Congress will continue to fund the Clean Coal program at the 1988 level, adjusted for inflation. The Department of Energy intends to award initial contracts for technology demonstration projects during fiscal year 1987. Following the award of these contracts, the baseline assumes that the relation between outlays and budget authority will be similar to that for comparable federal research programs.

Energy Conservation. The Omnibus Budget Reconciliation Act of 1986 (Public Law 99-509) directs the Secretary of Energy to apply as much as \$200 million from settlements in oil overcharge cases to state conservation grants. For fiscal year 1987, the Congress has supplemented the funds from oil overcharges by appropriating the difference between \$200 million and the amount of overcharge funds determined by the Secretary of Energy. The baseline assumes that the Congress will maintain an inflation-adjusted program level of \$200 million for conservation grants through 1992.

Strategic Petroleum Reserve. The Congress appropriates funds both for operation and construction of the reserve and for oil acquisition. The CBO baseline for operation and construction assumes that the planned capacity level of 750 million barrels is completed and maintained. The baseline for oil acquisition assumes that the reserve will be filled at a rate of 75,000 barrels per day, which is the minimum fill rate set by the Omnibus Budget Reconciliation Act of 1986. At this rate, the reserve will contain roughly 670 million barrels by the end of 1992.

#### Natural Resources and Environment (Function 300)

Fire-Fighting. The cost of fighting forest and range fires on federal lands is borne by the Bureau of Land Management, the Bureau of Indian Affairs, the U.S. Forest Service, the Fish and Wildlife Service, and the National Park Service. These agencies normally meet their fire-fighting costs by borrowing from other budget accounts, then repaying the borrowed amount



through a supplemental appropriation in the following fiscal year. For 1987, however, funds to reimburse actual 1986 fire-fighting costs were included in the continuing resolution. After 1987, the projections are based on average fire-fighting costs over the past five years, adjusted for inflation.

Wastewater Treatment Construction Grants. In the continuing resolution for fiscal year 1987, the Congress provided \$2.4 billion for the Environmental Protection Agency's construction grants program for wastewater treatment. Of that amount, \$1.8 billion represents current-year appropriations, and \$600 million is derived from funds appropriated in 1986 but not released for obligation. Of the \$1.8 billion in new appropriations, only \$600 million is immediately available for obligation, with the balance requiring release in a subsequent appropriation act. The CBO baseline assumes a base-year program level of \$2.4 billion, with adjustment for inflation in future years. Outlay estimates assume that the \$1.2 billion in 1987 appropriations not immediately available for obligation will be obligated in fiscal year 1988.

#### Agriculture (Function 350)

Commodity Credit Corporation Fund. The Commodity Credit Corporation (CCC) administers programs that support farm prices and incomes. In projecting spending for this activity, CBO assumes:

- o The continuation of policies set forth in the Food Security Act of 1985 (Public Law 99-198) and subsequent amendments, and announced or expected Administration actions implementing the legislation;
- o The announced 1987 target prices, loan rates, and acreage reduction programs for wheat, feed grains, cotton, and rice;
- o The continuation through 1992 of advance deficiency payments under the same terms as required for the 1987 crops--40 percent of estimated total deficiency payments for wheat and feed grains, 30 percent for cotton and rice; and
- o The continuation through 1992 of the feed grain paid diversion program.

#### Commerce and Housing Credit (Function 370)

Periodic Census and Programs. The cyclical nature of these activities, which are conducted by the Bureau of the Census, generates an irregular

baseline pattern. The CBO baseline excludes one-time items (generally major capital expenditures), includes future censuses required by law, and adjusts for inflation.

Patent and Trademark Office. Budget authority for the Patent and Trademark Office represents the difference between operating expenses and receipts. The CBO estimate of receipts is based on projected collections from trademark, service, and patent processing fees. The operating expenses are projected from the 1987 base and they assume a constant level of activity.

Federal Deposit Insurance Corporation (FDIC). Baseline projections of outlays for the FDIC consist of expenses for operations and for acquiring failed banks. These expenses are offset by assessments on insured bank deposits and by income from fees, liquidations, and investments. In addition, the FDIC issues notes, in lieu of cash, to banks that acquire failed financial institutions. The budget records the issuance of these debt securities as federal outlays.

#### Transportation (Function 400)

Federal-Aid Highways. The Surface Transportation Assistance Act of 1982 (Public Law 97-424) provides \$4 billion in contract authority each year through 1989 for Interstate highway construction and \$100 million in each year of the projections period for the emergency relief program. Spending for 1987 has been curtailed by a delay in reauthorizing the Highway Trust Fund programs. The CBO baseline assumes that the 100th Congress will reauthorize the highway programs for the current and future fiscal years at the 1986 level, adjusted for inflation. The 1987 continuing resolution established a ceiling for obligations of \$13 billion in 1987; the baseline adjusts this ceiling for inflation in later years.

Washington Metropolitan Area Transit Authority (WMATA) Interest Payments. The federal government's share of interest payments due on WMATA's outstanding debt issue is projected to remain constant at \$51.7 million through fiscal year 1992, as provided by Public Law 96-184.

Interstate Transfer Grants. In previous years, state and local governments could, with federal approval, withdraw from the Interstate highway system segments that they considered nonessential. The funds that would have been spent on the withdrawn segments could then be used for local transit projects. About \$1 billion of approved substitute transit projects was out-

standing at the start of fiscal year 1987. The projections assume appropriations through 1991 to cover these projects.

Washington Metro. Public Law 96-184 authorized \$1.7 billion in federal funds for construction of the Washington metrorail system. A total of \$1.158 billion has been appropriated to date, and the baseline assumes the 1987 appropriation will be continued in later years with adjustment for inflation. The final payments will be made in 1991.

Mass Transportation Discretionary Grants. The Surface Transportation Assistance Act of 1982 set aside one cent of the gasoline and diesel fuel excise tax for mass transportation and provided contract authority for discretionary grants through 1986. The baseline assumes that the Congress will reauthorize spending for Highway Trust Fund programs for the current fiscal year and future years at the 1986 level, adjusted for inflation. The 1986 obligation ceiling (\$1.003 billion) is also inflated in future years.

Highway Safety Grants. The Surface Transportation Assistance Act of 1982 authorized the use of Highway Trust Fund monies for highway-related safety grants and state and community highway safety grants through fiscal year 1986. The baseline assumes that Congress will reauthorize spending for these programs for the current fiscal year and future years at the 1986 level, adjusted for inflation.

Conrail Sale. The Omnibus Budget Reconciliation Act of 1986 directed the Secretary of Transportation to sell the government's interest in the common stock of Conrail. The baseline assumes that the government will receive about \$1.9 billion in fiscal year 1987 as a result of this sale. The payments which Conrail would have made to the federal government in later years are assumed to be canceled by the sale.

Grants-in-Aid for Airports. Budget authority for fiscal year 1987 was established for this program by the Airport and Airway Improvement Act of 1982 (Public Law 97-248) and the Surface Transportation Assistance Act of 1982. In fiscal years 1988 through 1992, the 1987 budget authority is adjusted for inflation. The CBO bases its outlay estimates on obligation ceilings specified in appropriation acts; the 1987 obligation ceiling of \$1 billion is adjusted for inflation in future years.

Metropolitan Washington Airports. The Metropolitan Washington Airports Act of 1986 (Public Law 99-591) authorized the Department of Transportation to lease Washington National Airport and Washington Dulles International Airport to a regional authority; the baseline assumes that this transfer will occur near the end of fiscal year 1987. Federal receipts from

concession arrangements and other activities at the two airports are assumed to cease when the airports are transferred. After 1987, the federal government will receive annual lease payments of \$3 million (in fiscal year 1987 dollars) and a one-time payment in fiscal year 1988 for the retirement system.

### Community and Regional Development (Function 450)

Disaster Assistance. Three major programs in this function help mitigate the effects of disasters on individuals, businesses, and local governments. Through these programs, the federal government provides flood insurance, loans to help restore damaged property, and grants to assist victims. Because of the unpredictable demand for these programs, baseline projections are based on weighted historical averages, adjusted for inflation and changes in regulations.

### Education, Training, Employment, and Social Services (Function 500)

Guaranteed Student Loans. The projection of the Guaranteed Student Loans program assumes extension of the authority for the Internal Revenue Service to recoup loan defaults from tax refunds.

Pell Grants. The Congress appropriated \$100 million in fiscal year 1987 to reduce program funding insufficiencies from prior years. The CBO baseline assumes the same amount is appropriated each year of the projections.

Corporation for Public Broadcasting. The Congress appropriates budget authority for this program two years in advance; the continuing resolution for fiscal year 1987, for example, provided funding for 1989. The baseline levels for later years reflect the 1989 level, adjusted for inflation.

Work Incentive (WIN). In anticipation of legislation that will replace the WIN program with a new training program, the 1987 appropriation for WIN provided funding for only nine months. The CBO baseline assumes that such a replacement program will be authorized, and projects spending for 1988 and later years based on the annualized 1987 program level, adjusted for inflation.

Interim Assistance to States for Legalization. Grants to states for legalization of aliens is a new and temporary program provided for in the Immigration Reform and Control Act of 1986 (Public Law 99-603). The bill provides appropriations of \$1 billion in fiscal years 1988 through 1991 for

payments to federal agencies and to states to cover certain income security, health, and education expenditures of authorized aliens legalized under the 1986 Act. The budget authority shown for grants to states is the \$1 billion appropriation less an offset for certain spending of federal agencies. Any unspent funds remain available through fiscal year 1994. Outlays represent estimated state expenditures for legalized aliens who qualify for reimbursement under the grant program.

#### Health (Function 550)

No unusual assumptions apply to this function.

#### Medical Insurance (Function 570)

Hospital Insurance. The baseline projections for the Hospital Insurance component of Medicare after fiscal year 1988 are subject to uncertainties concerning future hospital reimbursements. The Social Security Amendments of 1983 instituted a prospective reimbursement system for inpatient hospital services under which patients are classified into 468 diagnosis-related groups (DRG). Hospitals are paid a fixed amount per DRG. The Omnibus Budget Reconciliation Act of 1986 set the DRG rates for 1987 and 1988. After 1988, the DRG rates are to be set by the Secretary of Health and Human Services, advised by an independent commission. For 1989 through 1992, the baseline assumes that DRG rates will grow by the increase in the cost of a market basket of goods and services typically purchased by hospitals. In addition, hospital insurance outlays also rise with projected increases in eligible beneficiaries and hospital utilization.

#### Income Security (Function 600)

Subsidized Housing Programs. The initial Section 8 rental assistance contracts--a large proportion of the number of contracts outstanding--will expire by 1992. In addition, the first of the new five-year vouchers will expire over the projection period. The baseline includes estimates of the funding required to keep these expiring agreements in force, adding about \$24 billion to baseline budget authority in 1991 and \$18 billion in 1992.

Refugee and Entrant Assistance. Spending for refugee assistance declines in the baseline because of a projected drop in the number of refugees entering the country, within the ceiling set by the State Department. Funding for targeted assistance was not provided in the 1987 continuing resolution because of a large carryover of funds from fiscal year 1986. Full funding is assumed in the baseline for fiscal years 1988 through 1992.

Civil Service Retirement (CSR). The baseline projections for this program reflect a new retirement system created for federal employees during 1986 as well as changes made to the Civil Service Retirement system. The Federal Employees' Retirement System Act of 1986 (Public Law 99-335) established the Federal Employees' Retirement System (FERS) for all employees hired after December 31, 1983. Participants in the Civil Service Retirement system will be given the option of joining FERS. Estimates for increased participation in FERS and decreased participation in CSR are reflected in the baseline projections.

Participants in FERS will receive benefits from Social Security, a defined-benefit retirement plan, and a thrift savings plan. Unlike CSR, FERS will be fully paid for by employees and employing agencies. Federal agencies will also match their employees' voluntary contributions to the thrift savings plan, up to a specific rate set by law. Agency contributions to Social Security, the defined benefit plan, and the thrift plan are recorded as outlays in the appropriate functions of the budget and are also shown (with a negative sign) as undistributed offsetting receipts in function 950. Employee contributions to and withdrawals from the thrift plan will appear in a separate account within function 600. Outlays for the new defined benefit plan will be paid from the Civil Service Retirement Trust Fund.

Federal Windfall Subsidy to the Rail Industry Pension. The Congress appropriates funds each year to provide special benefits to certain retired rail workers employed before 1975. The federal cost declines each year in proportion to the mortality of beneficiaries. The baseline shows the 1987 appropriation of \$380 million declining to \$320 million in 1992.

#### Social Security (Function 650)

No unusual assumptions apply to this function.

#### Veterans' Benefits and Services (Function 700)

Veterans' Compensation. The veterans' and survivors' compensation program is not indexed by law for inflation, but benefit levels historically have been adjusted through annual legislation to cover increases in the cost of living. The CBO baseline assumes that future increases in compensation will be enacted at the same percentage rate as for Social Security and veterans' pensions and will be effective with the January payment check each year.

50 percent of this cost from existing funds. The 1987 estimates also assume that agencies will absorb all of the cost of the new Federal Employees Retirement System.

The 1988-1992 baseline projections for this function contain budget authority and outlays resulting from assumed pay rate increases for all federal employees of civilian agencies. The projections assume pay rate increases equal to the annual rate of growth in private-sector pay: 3.0 percent in January 1988, 4.8 percent in October 1988, 5.2 percent in October 1989, 5.8 percent in October 1990, and 5.7 percent in October 1991. The CBO assumes that additional appropriations are provided to cover these increases and that federal agencies will not be required to absorb any of the cost.

The baseline projections assume the scheduled expiration on September 30, 1988, of Section 811 of the Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99-272), which changed the effective date of pay raises from October to January for fiscal years 1986 through 1988; under this assumption the effective date for future pay raises reverts to October as of fiscal year 1989. These projections do not reflect the increase in the executive, legislative, and judicial pay ceiling proposed in the President's budget, which was transmitted after the CBO baseline was prepared.

The 1988-1992 costs of the January 1987 pay raise, the new Federal Employee Retirement System, and scheduled increases in the Social Security payroll tax are apportioned to the salary and expense accounts throughout the other functions of the budget. The baseline projections assume that budget authority will be increased to cover the full cost of this previously enacted legislation.

#### Undistributed Offsetting Receipts (Function 950)

Employer's Share, Employee Retirement. The government's contribution to employee retirement plans is assumed to grow in proportion to assumed pay rate increases and scheduled increases in contribution rates resulting from enactment of the Federal Employees' Retirement System Act of 1986. The new Federal Employees' Retirement System (FERS) requires higher contributions by agencies for their employees' retirement than did the Civil Service Retirement system, and, in addition, federal agencies will match their employees' voluntary contributions into a thrift savings plan up to a specified rate. Payments by agencies to FERS and the thrift plan are intra-budgetary transactions and have no effect on total budget outlays.

Agency contributions recorded in other budget functions are completely offset within function 950.

Military Retirement Contributions. The baseline projection for the government's contribution to the military retirement plan assumes a constant military personnel end strength, scheduled changes in contribution rates, and increases in proportion to assumed pay raises.

Outer Continental Shelf Receipts. Outer Continental Shelf (OCS) receipts consist of cash bonus bids from lease sales, annual rental payments, royalties on oil and gas production, and payments to the federal government resulting from the release of disputed OCS receipts from escrow accounts. Bonus receipts for fiscal years 1987 and 1988 are estimated on a sale-by-sale basis, reflecting bonus bids on previous offerings in the area in which a sale will occur, the Minerals Management Service (MMS) estimate of oil and gas reserves in the sale area, and CBO oil and gas price assumptions. Bonus receipts for subsequent years are assumed to remain at the 1988 level. Escrow releases depend on resolution of a case before the U.S. Supreme Court and negotiations between the State of Alaska and the Secretary of the Interior; timing of those releases is estimated based on information from the Department of the Interior and from the states concerned. Royalty receipt estimates are based on MMS projections of oil production and CBO projections of gas production and oil and gas prices.

## BASELINE CREDIT PROJECTIONS

Credit activity is recorded in the budget baseline when an agency disburses funds for direct loans or for defaulted guaranteed loans, and when loan repayments are received. These outlays reflect neither the full extent of federal credit activities nor their true costs. A separate credit budget records the volume of direct loan obligations and loan guarantee commitments.

The credit budget comprises projections of the annual new direct loan obligations and new guaranteed loan commitments for each federal lending program. Some programs, such as Federal Housing Administration guarantees, are subject to limits imposed by annual appropriations acts; these loan limits are typically projected to maintain the base-year level, with adjustments for inflation. If CBO projects that loan demand will be below the appropriated limits, then lending is projected at the demand level. For all other lending programs, CBO uses the eligibility parameters



specified in authorizing legislation and expected borrower demand to project loan obligations and guarantee commitments.

The Balanced Budget Act required that an agency's transactions with the Federal Financing Bank (FFB) be recorded as agency, not FFB, spending. Previously, an FFB disbursement of new loans to agency-guaranteed borrowers was recorded as an FFB outlay; the agency recorded a guarantee loan commitment, with no current-year budget authority or outlay impact. In fiscal year 1987 and beyond, these transactions are explicitly recognized as outlays of the guaranteeing agency, financed by borrowing from the FFB.

## **APPENDIX B**

---

### **BASELINE SPENDING AND CREDIT**

---

### **PROJECTIONS BY BUDGET FUNCTION**

---

Five broad categories of outlays--defense, entitlements and other mandatory spending, nondefense discretionary spending, net interest, and offsetting receipts--used in the body of this report are designed to reflect the way in which the Congress has approached spending decisions in recent budget resolutions. In this appendix, federal spending and credit projections are classified according to 21 budget functions.

The Congressional Budget Act of 1974, as amended, requires the Congress to include estimates of budget authority, outlays, new direct loan obligations, and new guaranteed loan commitments for each major budget function in its annual budget resolutions. The functional classification is a means of presenting spending estimates in terms of the broad national needs that federal programs are intended to address. Within a function, the programmatic objectives may be achieved in a variety of ways, including spending from Congressional appropriations, loans to private borrowers, and spending from earmarked trust funds.

National needs are grouped into 18 broad budget functions ranging from national defense, international affairs, energy, and agriculture programs to education, health, income security, and general purpose fiscal assistance to state and local governments. The three remaining functions--net interest, allowances, and undistributed offsetting receipts--do not address national needs but are included to make the budget complete.

Some outlays are excluded from the on-budget totals by law. The Balanced Budget and Emergency Deficit Control Act of 1985 provides that the outlays (and revenues) of the Social Security trust funds are to be excluded from the on-budget aggregates. Outlays for the Social Security retirement, survivors, and disability programs are classified in budget function 650. Most spending in this function--representing the outlays of the Old-Age and Survivors Insurance and Disability Insurance trust funds for benefit payments, administrative expenses, and other miscellaneous costs--is treated as off-budget. Off-budget outlays in net interest (function 900) reflect the interest earned by the Social Security trust funds on their investments in Treasury securities, while the off-budget portion of function 950 (undistributed offsetting receipts) reflects the payroll tax paid by federal government agencies on behalf of workers covered under the program.

---

Since 1980, Congressional budget resolutions have also included a separate credit budget. The spending budget, which generally operates on a cash-flow basis, cannot accurately reflect the full impact of federal budgetary policies on the allocation of credit in the U.S. economy. In the spending budget, loans are recorded on a net basis--that is, new loans less repayments. Loan guarantees do not appear except in the case of a default. The credit budget remedies some of these shortfalls by presenting the gross amounts of new loans and loan guarantees. Most credit budget activity is concentrated in a few budget functions: international affairs, agriculture, commerce and housing credit, education, and veterans' programs.

The CBO baseline projections for budget authority, outlays, and credit are presented by budget function in Tables B-1, B-2, and B-3, respectively.